

SETTING THE STAGE | Five Years of Crisis in Housing: Where Are We Now?

Moderator: Sandy Braunstein, Federal Reserve Board

Panelists: Eric Belsky, Joint Center for Housing Studies, Harvard University
Eileen Fitzgerald, NeighborWorks America

In this opening session to the conference, the panelists noted that so-called “mom and pop” investors have long dominated the single-family investment and rental sector. However, in a trend that has emerged during the recent housing crisis, corporate investors have become active in some markets, acquiring and managing a “new asset class” of foreclosed and vacant single-family homes to return to the market as rental housing.

As Sandy Braunstein of the Federal Reserve Board noted in this stage-setting session for the conference, reducing the number of vacant housing units and increasing available rental housing in a community can be positive developments. Also, many investors bring resources to the table that can help clear the inventory of foreclosed homes for sale. The concern, she noted, is that some of the large-scale private investment results in absentee ownership that can alter the character of communities affected by the crisis.

Eileen Fitzgerald of NeighborWorks America noted that there is good reason for concern about the destabilization of neighborhoods by large-scale investors. Her organization, which supports a national network of NeighborWorks housing counseling and community-based lending organizations, is finding that in many of the markets in which they operate, even homeowners with good credit and the ability to obtain mortgage financing have lost out on homes to cash-wielding investors who have “snapped up” properties. Sellers often prefer to work with all-cash buyers because of the speed at which cash buyers can close a transaction. As a result, opportunities for owner occupants are disappearing in some locations where there is a lot of investor activity. In addition, Fitzgerald said, there is potential for disinvestment down the road if corporate investors do not maintain properties or if they decide to quickly dispose of all of their properties in a particular neighborhood.

As pointed out by Eric Belsky of Harvard University, the dynamics of rental markets are quite complex in the post-crisis period. Belsky expects that most of the corporate investors in single-family rental housing are getting involved based on the assumption that, at some point, they will sell the home at a profit – which means they have an incentive to maintain it in decent condition. But, he added, being able to maintain the home depends on a number of factors, including rent levels, tenant turnover, how well the properties are managed, and the many things that can go wrong in a home.

As to when or whether homeownership rates are likely to rebound, Belsky noted that there are lessons to be learned in lending responsibly as a result of the crisis. “It’s not rocket science,” he said, adding that there is a great deal of precedent and experience in lending to low-income homebuyers or people with low down payments and credit challenges. Access to credit for sustainable homeownership can be

done, he argued, without engaging in the poor underwriting practices and undue risks that precipitated the crisis.

Fitzgerald believes there will be an eventual return of demand for homeownership to pre-crisis levels. Already, more people are interested in pre-purchase education. The draws of homeownership, she noted, continue to be building roots in the community, building equity in a way renting does not permit, and having more control over one's living situation. People realize that housing markets are more uncertain, she added, and they are more patient and are preparing for homeownership in ways they may not have done five or six years ago.

Turning to the specific issue of low-value markets—areas with high concentrations of vacant and foreclosed homes that attract little investment—both Fitzgerald and Belsky voiced concern that, in these cases, the public policy response needs to be market-specific and flexible. Each reiterated that approaches such as bringing in nonprofit investors, creating homeownership incentives, establishing land banking systems, and even demolishing blighted structures require careful consideration given limited government capacity and scarce resources.